

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF HIMA-SIBERT)
WATER DISTRICT FOR AN ADJUSTMENT)
OF RATES PURSUANT TO THE ALTERNA-) CASE NO. 8939
TIVE PROCEDURE FOR SMALL UTILITIES)

O R D E R

On November 21, 1983, Hima-Sibert Water District ("Hima-Sibert") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenue to use the alternative rate filing method in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

Hima-Sibert stated in its application that its proposed rates would produce an annual increase of \$29,643 from its 314 customers. However, the Commission's analysis of its proposed rates applied to its billing analysis for the test year shows that the proposed rates would produce an increase in annual revenue of

only \$13,708. In this Order, the Commission has not granted Hima-Sibert an increase above its present rates.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Hima-Sibert showed a net loss on its books for the test period ending December 31, 1982, of \$10,350, excluding \$1,995 in interest expense provided for in the debt service coverage.

The Commission's analysis and adjustment of Hima-Sibert's test period revenues and expenses and proposed adjustments is as follows:

Operating Revenue

Hima-Sibert reported total test period operating revenues of \$39,726 which it adjusted to \$41,556, consisting of \$40,276 in revenues from the sale of water and \$1,280 in other operating revenue. The billing analysis¹ provided by Hima-Sibert indicates that test period sales should have produced revenue of \$40,933, for total test period operating revenue of \$42,213, an increase of \$657 over Hima-Sibert's adjusted amount. Therefore the Commission has increased Hima-Sibert's adjusted test period operating revenue by this amount.

¹ Filed April 19, 1984, in response to the Commission's information request dated March 27, 1984.

Purchased Water

During the test period Hima-Sibert purchased 31,512,000 gallons of water at a test period cost of \$28,681. This amount was increased by Hima-Sibert by \$3,712 for an adjusted purchased water expense of \$32,393. The billing analysis provided by Hima-Sibert shows test period sales of 19,817,000 gallons. This sales level, adjusted to reflect the 15 percent maximum level of unaccounted-for water allowed by this Commission for rate-making purposes was increased to 23,314,118 gallons.² Based on the above adjusted purchases the Commission has determined Hima-Sibert's adjusted test period expense for purchased water to be \$20,983,³ a difference of \$11,410. Therefore, the Commission has reduced Hima-Sibert's pro forma purchased water expense by this amount.

Unaccounted-for Water

Hima-Sibert should set a high priority on the work essential to a reduction of its unaccounted-for water to 15 percent or less. The Commission is aware that some progress toward this goal has already been accomplished and commends Hima-Sibert for this work. This work should be continued and monthly reports to the Commission should be made until the 15 percent or less level has been reached and maintained for three successive months. These reports by Hima-Sibert should be filed with the Director of the Commission's Division of Utility Engineering and Services.

² 19,817,000 gallons \div .85 = 23,314,118 gallons.

³ 23,314,118 gallons \times \$.90/1000 gallons = \$20,983.

Depreciation Expense

Hima-Sibert did not include an allowance for depreciation expense in its application for rate adjustment. However, the 1982 Annual Report included an expense of \$7,836. This amount included depreciation on contributed property. It is the Commission's position that a utility should not be allowed to charge its customers recovery on plant provided the utility at no cost. Therefore, no depreciation expense is allowed on contributed property.

At the end of the test period Hima-Sibert had plant in service of \$259,279 and contributions in aid of construction of \$226,683 for a balance of non-contributed plant in service of \$32,596. This amount multiplied by Hima-Sibert's average depreciation rate of 3.02 percent⁴ results in an allowable depreciation expense for rate-making purposes of \$984.

Transportation Expense

Hima-Sibert had an actual test period transportation expense of \$1,156. Hima-Sibert proposed to increase this expense by \$8,000 to \$9,156 in order to reflect the future acquisition of a truck to be used in the operation of the system. The Commission is of the opinion that this proposed expense is neither known nor measurable and is moreover beyond the scope of the test period and should therefore be denied. Thus, the Commission has reduced

⁴ $\$7,836 \div \$259,279 = 3.02 \text{ percent.}$

Hima-Sibert's pro forma transportation expense to its actual test period level.

Other Operating Expenses

Hima-Sibert proposed to increase operation labor expense from \$6,873 to \$7,645; supplies expense from \$3,640 to \$4,060; maintenance expense from \$1,370 to \$2,220; accounting and collecting labor from \$1,145 to \$1,375; and outside services from \$621 to \$871. These adjustments were made in order to reflect anticipated future increases in these expenses. These proposed increases were not supported by any documentation by Hima-Sibert and are thus neither known nor measurable and should therefore be disallowed for rate-making purposes. Therefore the Commission has held these expenses to their actual test period levels for rate-making purposes.

Other Income

During the test period Hima-Sibert earned interest and dividend income of \$7,649. Since this is a recurring source of funds to Hima-Sibert the Commission has included this income in determining the level of Hima-Sibert's ongoing operations.

Therefore, the Commission is of the opinion that Hima-Sibert's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 39,726	\$ 2,487	\$42,213
Operating Expenses	57,725	(14,550)	43,175
Operating Income/(Loss)	<u>\$ (17,999)</u>	<u>\$ 17,037</u>	<u>\$ (962)</u>
Other Income	7,649	-0-	7,649
Net Operating Income/(Loss)	<u>\$ (10,350)</u>	<u>\$ 17,037</u>	<u>\$ 6,687</u>

REVENUE REQUIREMENTS

Hima-Sibert has a debt service requirement of \$3,195.⁵ The adjusted test period operations of Hima-Sibert provide a debt service coverage of 2.09X.⁶ The Commission is of the opinion that this coverage is adequate in that it will allow Hima-Sibert revenues sufficient to pay its operating expenses, meet its debt service requirements, and maintain a reasonable surplus. Therefore, the Commission is of the opinion that Hima-Sibert does not require a rate increase at this time.

CONNECTION CHARGES AND SPECIAL CHARGES

Hima-Sibert proposed to increase its service connection charge for 5/8-inch X 3/4-inch meters from \$150 to \$250 and to install larger meters on an actual cost basis. The cost data filed by Hima-Sibert adequately justifies the proposed \$250 service connection charge. Further, because of the fluctuation in the costs which may be incurred in the installation of larger meters, the Commission is of the opinion that service connection charges for these meters should be the actual cost of the connection as proposed.

Hima-Sibert also proposed to establish special charges for trips to collect delinquent accounts, to read a meter upon request of a customer to recheck a meter reading, meter tests and service

5	Average 5-year principal amount	\$1,200
	Interest Expense	<u>1,995</u>
	Debt Service	\$3,195

6 $\$6,687 \div \$3,195 = 2.09X.$

investigations. The Commission is of the opinion that the proposed charges are reasonable in that they will allow Hima-Sibert to recover the costs of these services from customers for whom the costs are incurred; however, the charge for testing a meter may be made only under the conditions set forth in 807 KAR 5:006, Section 19, and the charge to recheck a meter reading may be made only when it is determined that the original reading was correct.

FINDINGS AND ORDERS

The Commission, after considering the evidence of record and being advised, is of the opinion and finds that:

1. The rates proposed by Hima-Sibert will produce revenues in excess of those allowed herein and should be denied upon application of KRS 278.030.

2. The rates presently in effect are the fair, just and reasonable rates to be charged by Hima-Sibert for water service.

3. Hima-Sibert should continue its work toward reduction of its unaccounted-for water to the level of 15 percent or less. Monthly reports should be made by Hima-Sibert until a level of 15 percent or less has been accomplished and held for 3 successive months. Hima-Sibert should file these reports with the Director of the Commission's Division of Utility Engineering and Services.

4. The service connection charges and other special charges proposed by Hima-Sibert are fair, just and reasonable and should be approved subject to the conditions set out elsewhere in this Order.

5. Within 30 days of the date of this Order, Hima-Sibert should file a copy of its revised rates and tariffs with this Commission.

IT IS THEREFORE ORDERED that the rates proposed by Hima-Sibert be and they hereby are denied.

IT IS FURTHER ORDERED that all rates and charges not specifically set out in Appendix A shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

IT IS FURTHER ORDERED that Hima-Sibert shall continue working toward reducing its unaccounted-for water to a level of 15 percent or less and make reports of its progress thereon to this Commission as set forth in finding number 3 herein.

IT IS FURTHER ORDERED that the service connection charges and other special charges proposed by Hima-Sibert and shown in Appendix A be and they hereby are approved for services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Hima-Sibert shall file its revised tariff sheets with this Commission setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 13th day of July, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Herman, Jr.
Chairman

Robert D. Taylor, Jr.
Vice Chairman

Len Shaver
Commissioner

ATTEST:

Acting Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8939 DATED 7/13/84

The following rates and charges are prescribed for customers served by Hima Sibert Water District. All other rates and charges not specifically mentioned herein shall remain the same as previously in effect under authority of the Commission prior to the effective date of this Order.

SERVICE CONNECTION CHARGES

<u>Meter Size</u>	<u>Charge</u>
5/8-inch X 3/4-inch	\$250
All Others	Actual Cost

SPECIAL CHARGES

DELINQUENT SERVICE CHARGE	\$10.00 during working hours 15.00 after working hours
METER READING RECHECK CHARGE*	7.50
METER TEST REQUEST**	10.00
SERVICE RECONNECTION CHARGE	12.00 during working hours 15.00 after working hours
SERVICE INVESTIGATION	8.00 during working hours 10.00 after working hours

*This charge shall be applicable only where a customer requests that a meter reading be rechecked and it is subsequently determined that the original reading was correct.

**The meter test charge will be applied under the conditions set forth in 807 KAR 5:006, Section 19.